

Insurance for Adjustable Rate Mortgages (ARMs) (Section 251)

Federal mortgage insurance for adjustable rate mortgages (ARMs).

Nature of Program: Under this HUD-insured mortgage, the interest rate and monthly payment may change during the life of the loan. The initial interest rate, discount points, and the margin are negotiated by the borrower and lender. This product is subject to all requirements of the Section 203(b) program (Mortgage Insurance for One- to Four-Family Homes), FHA's basic mortgage insurance program.

The one-year Treasury Constant Maturities Index is used for determining the interest rate changes. FHA lenders may offer ARMs that have interest rates that are fixed for the first one, 3, 5, 7, or 10 years of the mortgage. The interest rate for one-year and 3-year insured ARMs may not be increased or decreased by more than one percentage point per year after the fixed-payment period is over, with a maximum change of 5 percentage points over the life of the loan. For 5-year, 7-year, and 10-year ARMs, the interest rate may change a maximum of 2 percentage points annually and 6 percentage points over the life of the loan.

Lenders are required to disclose to borrowers the nature of the ARM loan at the time of loan application. In addition, borrowers must be informed at least 25 days in advance of any adjustment to the monthly payment.

Applicant Eligibility: All FHA-approved lenders may make adjustable rate mortgages; creditworthy applicants who will be owner-occupants may qualify for such loans.

Legal Authority: Section 251 of the National Housing Act (12 U.S.C. 1715z-16). Regulations are at 24 CFR 203.49.

Administering Office: Assistant Secretary for Housing-Federal Housing Commissioner, U.S. Department of Housing and Urban Development, Washington, DC 20410.

Information Sources: Administering office and HUD field offices.

On the Web:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/ins/251--df

Current Status: Active.